

PERAC AUDIT REPORT



Chicopee

Contributory Retirement System

JAN. 1, 2011 - DEC. 31, 2013



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

JOSEPH E. CONNARTON, *Executive Director*

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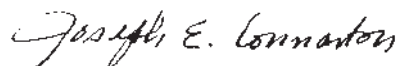
November 24, 2014

The Public Employee Retirement Administration Commission has completed an examination of the Chicopee Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2011 to December 31, 2013. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of the finding presented in this report.

In closing, I acknowledge the work of examiner Scott Henderson who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDING AND RECOMMENDATION

Regular Compensation:

There are two codes used by the school department that should have retirement contributions withheld when paid to individuals who are already members of the Chicopee Retirement System. One code is a stipend for coaching, and the other is a stipend for running an afterschool club. These satisfy the definition of regular compensation found in 840 CMR 15.03 3(a) and (b), since they are both “pre-determined, non-discetionary, guaranteed payments ... for services performed.”

Recommendation: The payroll department should be instructed to begin withholding contributions on these codes in cases where the recipient is already a member of the System.

Board Response:

This situation has been addressed and the proper retirement deductions plus the additional 2%, if applicable, will now be taken from the two stipend codes in cases where the recipient is a member of the Chicopee Retirement System.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2013	2012	2011
Net Assets Available For Benefits:			
Cash	\$246,630	\$513,109	\$312,789
Pooled Domestic Equity Funds	81,718,295	65,039,340	57,465,938
Pooled International Equity Funds	40,956,621	33,260,776	27,708,967
Pooled Domestic Fixed Income Funds	35,369,654	31,366,821	25,682,384
Pooled International Fixed Income Funds	8,880,083	7,725,651	6,435,047
Pooled Alternative Investment Funds	24,485,356	22,384,474	23,044,514
Pooled Real Estate Funds	24,272,642	21,782,605	19,332,128
Hedge Funds	16,490,481	14,926,553	8,599,142
Accounts Receivable	185,922	122,346	126,042
Accounts Payable	(41,150)	(22,971)	(28,986)
Total	<u>\$232,564,535</u>	<u>\$197,098,704</u>	<u>\$168,677,964</u>
Fund Balances:			
Annuity Savings Fund	\$55,639,877	\$52,903,453	\$49,974,889
Annuity Reserve Fund	11,343,862	11,273,982	11,530,674
Pension Fund	4,966,465	3,794,349	2,841,240
Military Service Fund	95,665	98,497	90,014
Expense Fund	0	0	0
Pension Reserve Fund	160,518,665	129,028,422	104,241,147
Total	<u>\$232,564,535</u>	<u>\$197,098,704</u>	<u>\$168,677,964</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2011)	\$47,509,827	\$11,209,691	\$2,886,018	\$89,834	\$0	\$104,106,312	\$165,801,682
Receipts	4,748,892	338,779	14,556,043	180	985,563	134,744	20,764,200
Interfund Transfers	(2,018,048)	2,017,958	0	0	0	90	(0)
Disbursements	(265,782)	(2,035,754)	(14,600,820)	0	(985,563)	0	(17,887,918)
Ending Balance (2011)	49,974,889	11,530,674	2,841,240	90,014	0	104,241,147	168,677,964
Receipts	4,818,855	342,190	15,721,864	8,483	1,140,454	24,781,769	46,813,615
Interfund Transfers	(1,602,976)	1,597,470	0	0	0	5,506	0
Disbursements	(287,315)	(2,196,352)	(14,768,755)	0	(1,140,454)	0	(18,392,876)
Ending Balance (2012)	52,903,453	11,273,982	3,794,349	98,497	0	129,028,422	197,098,704
Receipts	5,222,883	340,384	16,357,296	3,770	1,364,208	31,489,236	54,777,777
Interfund Transfers	(1,957,317)	1,961,741	1,170	(6,601)	0	1,007	0
Disbursements	(529,142)	(2,232,246)	(15,186,350)	0	(1,364,208)	0	(19,311,946)
Ending Balance (2013)	<u>\$55,639,877</u>	<u>\$11,343,862</u>	<u>\$4,966,465</u>	<u>\$95,665</u>	<u>\$0</u>	<u>\$160,518,665</u>	<u>\$232,564,535</u>

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2013	2012	2011
Annuity Savings Fund:			
Members Deductions	\$4,712,471	\$4,553,441	\$4,384,020
Transfers from Other Systems	272,451	124,606	225,281
Member Make Up Payments and Re-deposits	105,910	25,636	27,796
Member Payments from Rollovers	73,412	59,196	16,719
Investment Income Credited to Member Accounts	<u>58,640</u>	<u>55,976</u>	<u>95,076</u>
Sub Total	<u>5,222,883</u>	<u>4,818,855</u>	<u>4,748,892</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>340,384</u>	<u>342,190</u>	<u>338,779</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	145,533	111,671	103,953
91A Recovery	0	0	0
Pension Fund Appropriation	15,853,227	14,973,192	14,032,934
Settlement of Workers' Compensation Claims	<u>12,000</u>	<u>6,000</u>	<u>17,000</u>
Sub Total	<u>16,357,296</u>	<u>15,721,864</u>	<u>14,556,043</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	3,657	8,393	0
Investment Income Credited to the Military Service Fund	<u>113</u>	<u>90</u>	<u>180</u>
Sub Total	<u>3,770</u>	<u>8,483</u>	<u>180</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	<u>1,364,208</u>	<u>1,140,454</u>	<u>985,563</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	85,110	93,575	113,712
Interest Not Refunded	53	639	409
Miscellaneous Income	0	4,240	4,199
Excess Investment Income	<u>31,404,072</u>	<u>24,683,316</u>	<u>16,425</u>
Sub Total	<u>31,489,236</u>	<u>24,781,769</u>	<u>134,744</u>
Total Receipts, Net	<u>\$54,777,777</u>	<u>\$46,813,615</u>	<u>\$20,764,200</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2013	2012	2011
Annuity Savings Fund:			
Refunds to Members	\$307,453	\$200,138	\$153,803
Transfers to Other Systems	<u>221,690</u>	<u>87,178</u>	<u>111,979</u>
Sub Total	<u>529,142</u>	<u>287,315</u>	<u>265,782</u>
Annuity Reserve Fund:			
Annuities Paid	2,203,034	2,110,947	2,018,360
Option B Refunds	<u>29,212</u>	<u>85,405</u>	<u>17,393</u>
Sub Total	<u>2,232,246</u>	<u>2,196,352</u>	<u>2,035,754</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	10,267,726	10,162,335	10,030,317
Survivorship Payments	837,051	837,506	873,138
Ordinary Disability Payments	96,416	94,648	92,809
Accidental Disability Payments	2,705,884	2,586,174	2,536,709
Accidental Death Payments	676,253	672,141	655,017
Section 101 Benefits	127,795	107,075	119,463
3 (8) (c) Reimbursements to Other Systems	<u>475,225</u>	<u>308,877</u>	<u>293,367</u>
Sub Total	<u>15,186,350</u>	<u>14,768,755</u>	<u>14,600,820</u>
Expense Fund:			
Board Member Stipend	18,153	12,637	15,000
Salaries	205,882	203,295	198,667
Legal Expenses	12,250	9,517	7,165
Travel Expenses	5,342	3,300	2,003
Administrative Expenses	17,484	10,580	13,885
Professional Services	0	0	15,725
Actuarial Services	8,975	8,950	0
Education and Training	3,769	3,203	2,673
Furniture and Equipment	1,411	0	1,575
Management Fees	1,054,617	849,908	688,892
Custodial Fees	485	1,941	4,642
Service Contracts	22,734	24,034	22,667
Fiduciary Insurance	<u>13,106</u>	<u>13,088</u>	<u>12,668</u>
Sub Total	<u>1,364,208</u>	<u>1,140,454</u>	<u>985,563</u>
Total Disbursements	<u>\$19,311,946</u>	<u>\$18,392,876</u>	<u>\$17,887,918</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2013	2012	2011
Investment Income Received From:			
Cash	\$4	\$255	\$1,325
Short Term Investments	0	0	59
Pooled or Mutual Funds	<u>4,390,132</u>	<u>4,245,740</u>	<u>4,005,859</u>
Total Investment Income	<u>4,390,136</u>	<u>4,245,995</u>	<u>4,007,243</u>
Plus:			
Realized Gains	12,742,531	2,028,444	3,168,370
Unrealized Gains	<u>34,339,971</u>	<u>32,213,442</u>	<u>23,752,245</u>
Sub Total	<u>47,082,502</u>	<u>34,241,886</u>	<u>26,920,615</u>
Less:			
Realized Loss	(57,258)	(78,343)	(615,183)
Unrealized Loss	<u>(18,247,962)</u>	<u>(12,187,513)</u>	<u>(28,876,653)</u>
Sub Total	<u>(18,305,220)</u>	<u>(12,265,856)</u>	<u>(29,491,836)</u>
Net Investment Income	<u>33,167,417</u>	<u>26,222,025</u>	<u>1,436,022</u>
Income Required:			
Annuity Savings Fund	58,640	55,976	95,076
Annuity Reserve Fund	340,384	342,190	338,779
Military Service Fund	113	90	180
Expense Fund	<u>1,364,208</u>	<u>1,140,454</u>	<u>985,563</u>
Total Income Required	<u>1,763,345</u>	<u>1,538,710</u>	<u>1,419,597</u>
Net Investment Income	<u>33,167,417</u>	<u>26,222,025</u>	<u>1,436,022</u>
Less: Total Income Required	<u>1,763,345</u>	<u>1,538,710</u>	<u>1,419,597</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$31,404,072</u>	<u>\$24,683,316</u>	<u>\$16,425</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2013		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$246,630	0.1%
Pooled Domestic Equity Funds	81,718,295	35.2%
Pooled International Equity Funds	40,956,621	17.6%
Pooled Domestic Fixed Income Funds	35,369,654	15.2%
Pooled International Fixed Income Funds	8,880,083	3.8%
Pooled Alternative Investment Funds	24,485,356	10.5%
Pooled Real Estate Funds	24,272,642	10.4%
Hedge Funds	<u>16,490,481</u>	<u>7.1%</u>
Grand Total	<u>\$232,419,763</u>	<u>100.0%</u>

For the year ending December 31, 2013, the rate of return for the investments of the Chicopee Retirement System was 17.09%. For the five-year period ending December 31, 2013, the rate of return for the investments of the Chicopee Retirement System averaged 15.74%. For the 29-year period ending December 31, 2013, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Chicopee Retirement System was 8.91%.

The composite rate of return for all retirement systems for the year ending December 31, 2013 was 15.57%. For the five-year period ending December 31, 2013, the composite rate of return for the investments of all retirement systems averaged 12.13%. For the 29-year period ending December 31, 2013, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.49%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Chicopee Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

November 9, 2010

21.01(1)-(10)

The Chicopee Retirement System is authorized to invest in the SEI Special Situations Fund, a fund of funds structured to capitalize on perceived market dislocations across a wide range of capital markets. Some of the underlying funds may purchase securities on margin or engage in short-selling. Managers of underlying funds may use futures contracts for hedging purposes or to implement basic portfolio strategies. Managers of underlying funds may buy or sell options for hedging purposes or to implement basic portfolio strategies. Managers of underlying funds reserve the right to purchase restricted stock and to deal in collateral loans. Sections 21.01(7) and 21.01(10) do not apply to underlying fund managers' ability to directly invest in either mortgages or real estate. 21.01(9) does not apply to the lending activities of underlying fund managers.

December 17, 2008

Notwithstanding the provisions of any statute of the Commonwealth or regulations of the Public Employee Retirement Administration Commission to the contrary, including but not limited to the provisions of 840 CMR 21.01(2)(3)(4) and (5), the Chicopee Retirement Board is hereby granted an exemption from restrictions on investment contained therein for the purposes of investing in the SEI Global Private Equity Fund II (2007), L.P.

Notwithstanding the provisions of any statute of the Commonwealth or regulations of PERAC to the contrary, including but not limited to the provisions of 840 CMR 21.01 (2) (3) (4) and (5), the Chicopee Retirement Board is hereby granted an exemption from restrictions on investment contained herein for the purposes of investing in the SEI Structured Credit Fund, LP.

Notwithstanding the provisions of any statute of the Commonwealth or regulations of the Public Employee Retirement Administration Commission to the contrary, including but not limited to the provisions of 840 CMR 21.01(2)(3)(4) and (5), the Chicopee Retirement Board is hereby granted an exemption from restrictions on investment contained therein for the purposes of investing in the SEI Offshore Opportunities Fund, II Ltd.

July 29, 2008

Notwithstanding the provisions of any statute of the Commonwealth or regulations of the Public Employee Retirement Administration Commission to the contrary, including but not limited to the provisions of 840 CMR 21.01(2)(3)(4) and (5), the Chicopee Retirement Board is hereby granted an exemption from restrictions on investment contained therein for the purposes of investing in the following SEI mutual funds, provided that the underlying investments conform to the terms of the fund prospectuses on file with the United States Securities and Exchange Commission:

SEI Institutional Investments Trust Disciplined Equity Fund
SEI Institutional Investments Trust World Equity Ex-US Fund
SEI Institutional Investments Trust Small/Mid Cap Equity Fund
SEI Institutional Investments Trust Core Fixed Income Fund
SEI Institutional Investments Trust High Yield Bond Fund
SEI Institutional Investments Trust Emerging Market Bond Fund

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Chicopee Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6 % after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s.6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$797.64 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$797.64 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Chicopee Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

Membership:

April 22, 1999

Seasonal employees who work more than 20 hours per week for five months or more on a regular basis shall become members of the Chicopee Contributory Retirement System upon reaching eligibility.

December 4, 1998

Requirements for membership:

- A permanent full time employee of any member unit of the Chicopee Contributory Retirement System shall become a member of the Chicopee Contributory Retirement System on the first day of employment.
- A part time permanent employee who normally works more than twenty hours per week shall become a member of the Chicopee Contributory Retirement System on the first day of employment.
- Temporary employees shall be ineligible for membership, however, upon becoming permanent, the employee shall have the option of purchasing prior service.
- Elected officials shall continue to have the option of joining the Chicopee Contributory Retirement System in accordance with General Laws, Chapter 32, section 3(2)(a)(iv).

Creditable Service:

July, 25, 2005

Full time employees who become part-time shall have their service prorated as it relates to a full time position. If these employees work over twenty hours per week after switching from full-time to part-time, then these employees shall receive one year of creditable service provided they work all the hours required by their position.

December 4, 1998

Full time employees will receive one (1) year of creditable service provided they work the hours required by their position. Part time employees whose positions have always been part time shall be granted full creditable service. Part time employees who become full time shall have their part time service prorated as it relates to a full time position.

Buyback: For any employee who is not a member of the Chicopee Contributory Retirement System on the first date of employment that employee, upon becoming a member, shall be allowed to buy back their service as a non-member regardless if the employee made contributions to deferred compensation.

Travel Regulations

March 11, 2003

The Chicopee Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website <http://www.mass.gov/perac/Chicopee>.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Sharyn A. Riley

Appointed Member: Debra A. Boronski Until a successor is appointed

Elected Member: Timothy O. O'Shea, Chairman Term Expires: 06/30/16

Elected Member: James R. Montcalm Term Expires: 12/18/14

Appointed Member: Maxwell S. Mackechnie Term Expires: 01/06/15

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Ex-officio Member:) Fidelity Insurance (employee dishonesty):
Elected Members:) \$1,000,000 coverage with \$10,000 deductible
Appointed Members:) issued through Travelers
Staff Employees:) Fiduciary Insurance:
) \$50,000,000 coverage with \$10,000 deductible under
	a master MACRS sponsored policy issued through a
	layered program with Travelers, National Union Fire,
	and State National Insurance

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2013.

The actuarial liability for active members was	\$143,187,550
The actuarial liability for inactive members was	1,104,101
The actuarial liability for retired members was	<u>151,057,597</u>
The total actuarial liability was	\$295,349,248
System assets as of that date were (actuarial value)	<u>186,289,771</u>
The unfunded actuarial liability was	<u>\$109,059,477</u>
 The ratio of system's assets to total actuarial liability was	 63.1%
As of that date the total covered employee payroll was	\$49,850,426

The normal cost for employees on that date was 9.0% of payroll

The normal cost for the employer was 3.9% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum
 Rate of Salary Increase: Groups 1 and 2 vary by service
 Group 4 varies by service and department

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2013	\$186,290,000	\$295,349,000	\$109,059,000	63.1%	\$49,850,000	218.8%
1/1/2012	\$174,648,000	\$289,436,000	\$114,788,000	60.3%	\$48,648,000	236.0%
1/1/2011	\$167,050,000	\$278,174,000	\$111,124,000	60.1%	\$50,243,000	221.2%
1/1/2010	\$156,047,000	\$271,942,000	\$115,895,000	57.4%	\$51,818,000	223.7%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Retirement in Past Years										
Superannuation	17	23	18	18	24	26	26	35	23	27
Ordinary Disability	0	0	0	0	0	0	0	0	0	2
Accidental Disability	5	2	3	3	6	1	2	4	4	5
Total Retirements	22	25	21	21	30	27	28	39	27	34
 Total Retirees, Beneficiaries and Survivors	853	852	833	828	824	810	795	797	781	780
 Total Active Members	1,179	1,182	1,197	1,199	1,227	1,226	1,216	1,219	1,267	1,264
Pension Payments										
Superannuation	\$8,731,137	\$8,823,782	\$8,940,825	\$9,122,273	\$9,183,214	\$9,536,409	\$9,879,155	\$10,030,317	\$10,162,335	\$10,267,726
Survivor/Beneficiary Payments	649,085	669,842	710,689	724,731	773,317	797,576	833,277	873,138	837,506	837,051
Ordinary Disability	171,889	158,415	171,839	172,104	165,104	135,893	102,541	92,809	94,648	96,416
Accidental Disability	2,043,662	2,104,734	2,341,093	2,215,457	2,324,625	2,404,366	2,458,154	2,536,709	2,586,174	2,705,884
Other	<u>1,002,493</u>	<u>1,048,757</u>	<u>1,087,922</u>	<u>1,118,556</u>	<u>1,195,947</u>	<u>1,157,407</u>	<u>1,246,541</u>	<u>1,067,847</u>	<u>1,088,092</u>	<u>1,279,273</u>
Total Payments for Year	<u>\$12,598,266</u>	<u>\$12,805,530</u>	<u>\$13,252,368</u>	<u>\$13,353,121</u>	<u>\$13,642,207</u>	<u>\$14,031,651</u>	<u>\$14,519,668</u>	<u>\$14,600,820</u>	<u>\$14,768,755</u>	<u>\$15,186,350</u>

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